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December 18, 2007

AGENDA ITEM 3-B

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: SB 755 (Alquist) – As Amended August 20, 2007

\$5,000 Death Benefit for Retired State Members

Sponsor: CSEA Retirees, Inc.

II. PROGRAM: Legislation

III. RECOMMENDATION: Support, if amended

The increased death benefit will help offset the financial burden on survivors and beneficiaries, but also creates benefit inequity between current and future state retirees.

Staff recommends the bill be amended to provide the increased death benefit amount to all state retirees, regardless of retirement date, to ensure an equitable program design.

IV. ANALYSIS:

This bill would increase from \$2,000 to \$5,000 the death benefit paid to the beneficiary of a state member who retired on or before July 1, 2008 and was receiving a retirement allowance at the time of death.

Background

The California Public Employees' Retirement Law (PERL) provides varying levels of death benefits according to membership category and status, each providing a "lump-sum" of money to survivors at the time of the member's death. The original lump-sum death benefit of \$300 for all retired CalPERS members was enacted in 1945, however, over the years; the Legislature began to provide different benefit levels to different categories of members: state, school, local, Judges' Retirement

Systems (JRS and JRS II), Legislators' Retirement System (LRS), active, and retired.

Currently, state and school members have a retiree death benefit of \$2,000. Local members have a minimum benefit of \$500, with an option to provide up to \$5,000 through contract amendment. Members of JRS have no retiree burial benefit; while members of LRS receive \$600.

In 1996, the federal income tax exclusion for death benefits up to \$5,000 was repealed. A beneficiary who receives a lump-sum retired death benefit is permitted to "roll-over" the benefit into a qualified plan or IRA to defer taxes on the amount, otherwise a mandatory 20% federal tax withholding is deducted from the payment.

Proposed Changes

SB 755 increases the death benefit paid to the beneficiary of a state member who retired on or before July 1, 2008 and was receiving a retirement allowance at the time of death from \$2,000 to \$5,000. It does not change the current death benefit of \$2,000 for state members who retire after July 1, 2008.

Legislative History

2005 AB 844 (Negrete McLeod) — Would have increased from \$2,000 to \$5,000 the death benefit paid to the beneficiary of a state member who retired on or before July 1, 2006 and was receiving a retirement allowance at the time of death. This bill died in the Assembly. *CalPERS' position: Support, if amended.*

2002 AB 2688 (Alquist) — Would have increased the various death benefits paid to all members and retirees in the retirement systems administered by CalPERS to \$7,500. This bill died in the Assembly. *CalPERS position: Sponsor*

Chapter 1145 (SB 1156, Burton) — Would have raised the death benefit for state and school retirees to \$5,000. The death benefit language was amended out of the bill prior to passage. *CalPERS position: Support, with amendments*

2001 AB 1162 (Alquist) — Would have raised the death benefit for state and school retirees to \$5,000. This bill died in the Assembly. *CalPERS position: Support*

2000 AB 1829 (Correa) — Would have increased the death benefit for both state and school members to \$5,000. The increase would only have applied to members who retired on or before July 3, 2001—the date the collective bargaining agreements would expire. This bill died in the Assembly. *CalPERS position: Co-Sponsor*

- 1999 AB 428 (Correa) — Would have increased the death benefit for retired state members from \$2,000 to \$5,000. Governor Davis vetoed the bill stating, “Since a burial allowance is a benefit that will apply to current state employees upon retirement, this benefit would be subject to collective bargaining.” *CalPERS position: Support*
- 1990 Chapter 1701 (SB 1683, Mello) — Raised the death benefit for retired state members from \$600 to \$2,000. The increase was not extended to school members whose death benefit remained at the \$600 level until the enactment of Chapter 947 of 2000 (AB 50, Migden). *CalPERS position: Support*

Issues

1. Arguments in Support

According to the Author:

This benefit has been historically perceived as a means to cover the CalPERS members’ funeral costs. The benefit level was originally set at \$600 in 1980 before being raised to the current level in 1990...A death benefit of \$2,000 is inadequate to cover funeral costs which average roughly \$4,700 (and increases constantly) and do not include the cost of a casket or burial. An increase in this death benefit to \$5,000 will more accurately, and more fairly, reflect current funeral costs...This bill remedies a long-standing inequity in that local public agency retirees can receive a \$5,000 death benefit and STRS retirees receive a \$5,000 death benefit, yet State employees in the PERS program get only \$2,000.”

Organizations in Support: CSEA Retirees, Inc. (sponsor)

2. Arguments by those in Opposition

There is currently no known opposition; however, similar measures have been vetoed in the past.

In 1999, Governor Davis vetoed legislation (AB 363) that would have raised the death benefit for school members to \$5,000, because it did not include state members. Governor Davis also vetoed AB 428, which would have raised the death benefit for state members to \$5,000, because the increased benefit would apply to current state employees upon retirement and should therefore be subject to collective bargaining.

The sponsor of SB 755 has attempted to address this issue by making the provisions of the bill applicable only to current retirees (who are not able to collectively bargain) and those employees who will retire prior to the expiration of the current collective bargaining agreements.

Organizations in Opposition: There is currently no known opposition

3. Benefit Inequity Between Current and Future Retirees

SB 755 would create a benefit for current state retirees and those who retire on or before July 1, 2008. Those who retire after that date would receive the lower death benefit of \$2,000, unless employee organizations are able negotiate a higher lump-sum death benefit in future bargaining agreements.

It should be noted, however, that this bill could also result in a new inequity in benefit design, since the death benefit for current retired state members would be greater than that provided for members retiring after July 1, 2008. This bill should be amended to provide the increased death benefit amount to all state retirees, regardless of retirement date.

4. Current burial benefit levels are inadequate.

According to the latest information available from the National Funeral Directors Association, the average cost of a full service funeral in 2005 was \$6,580. This price included an outer burial container, but did not include cemetery costs, for grave space, the monument and other burial costs. Combined with the current Social Security lump-sum death benefit of \$255, the retiree lump-sum burial benefits currently provided are inadequate to pay for a basic funeral and burial. In fact, even the group term life insurance provided to active state members (\$5,000) is inadequate to cover funeral costs.

Comparable systems offer higher death benefits than CalPERS: CalSTRS provides \$6,163; University of California Retirement System provides \$7,500; and the 1937 Act County Systems provide a \$1,000 base benefit with an option to provide up to \$5,000.

This bill helps reduce death benefit inequities amongst California's various public pension plans by making CalPERS state employee death benefit similar to those provided by other systems, however, CalPERS school members would continue to receive death benefits at the lower \$2,000 level.

5. Legislative Policy Standards

The Board has historically supported legislation to increase the death benefit for retired state members. The Board's Legislative Policy Standards call for support of proposals that attempt to correct a deficiency in program design. This bill could be viewed as such an attempt, since the current \$2,000 death benefit is insufficient to cover average funeral and burial expenses. This benefit improvement would provide a more adequate burial allowance so that survivors of deceased state members will be less burdened by death-related expenses. In order to ensure an equitable program design, staff recommends the Board take a Support, if Amended to provide the increased death benefit amount to all state retirees, regardless of retirement date.

V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but is a part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

Program Costs

Based on the June 30, 2006 annual valuation data increasing the death benefit to \$5,000 for retired state members who retire on or before July 1, 2008 would increase the state employer costs as follows:

Estimated Increase in Present Value of Benefits (On June 30, 2008)	\$193.3 Million
Estimated Increase in Unfunded Liability (On June 30, 2008)	\$193.3 Million
Estimated Increase in State Contribution in Fiscal Year 2009-2010 <i>(Based on a 20 Year Amortization of the Increase in Unfunded Liability)</i>	\$15.7 Million

The estimated increase in State contribution after 2009-2010 will be increased by 3.25% per year. At the end of the 20-year amortization period, the estimated increase will be \$28.8 million in 2028-2029.

Administrative Costs

Certain publications (along with the CalPERS website) would need to be updated and modifications to CalPERS benefit calculation systems would have to be made. If out-of-cycle publication revisions are required or additional outside resources are needed to accomplish technology system modifications, administrative costs would increase significantly.

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